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SUBJECT: PLENUM DECISION TACKLES LAND, RURAL FINANCE, BUT
CONCERNS OVER IMPLEMENTATION REMAIN

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11. (SBU) SUMMARY: The full text of the "Decision" approved by the Third Plenum of the CCP 17th Central Committee was released on October 19 (ref A), largely echoing the October 12 Plenum Communique (ref B) by pledging more Central Government support for efforts to boost peasant incomes, reduce the rural-urban income gap, modernize agricultural production and ensure grain security. Unlike the Communique, however, the Decision addresses the key issue of land reform, reigning in government expropriation of peasant land, and codifying peasants' ability to transfer those rights. Legal changes may follow to make it easier to extend or renew rural agricultural land-use contracts, but rural land nevertheless remains collectively owned. The Decision also calls for further rural finance reforms, and China's financial authorities announced October 17 that trial reforms will be carried out in Northeast and Central China. COMMENT: Despite the potentially far-reaching effects of these reforms, many observers say the details of the Decision do not live up to the pre-Plenum media hype, as details are still lacking and implementation remains a key concern. Contacts nonetheless believe the Decision represents a renewed push to address rural issues key to Hu Jintao's Scientific Development concept and to rebalancing China's macroeconomy. END SUMMARY AND COMMENT.

The Decision: Direction Without Details

12. (SBU) The "Decision on Major Issues Concerning the Advancement of Rural Reform and Development" (aka "Decision") agreed to at the Third Plenary Session ("Plenum") of the Chinese Communist Party (CCP) 17th Central Committee was released to the public on October 19. The Decision reiterates the basic points of the Plenum Communique (ref B), using general language to pledge more Central Government support for rural development efforts to boost peasant incomes, eliminate the rural-urban gap and modernize agricultural production. The Decision stresses the need to ensure grain security by maintaining China's grain self-sufficiency as well as China's 1.8 billion

mu of cultivated land. Unlike the October 12 Communique, which only mentioned broad areas of reform, the Decision provides some specifics on key areas, particularly rural land-use rights and rural finance. The Decision also addresses urbanization and flexibility of the hukou (household registration) system, as well as strengthening the rural social safety net, investing in rural infrastructure, strengthening rural cooperatives and increasing rural political representation.

"Setting the Tone" for the Next 30 Years?

¶13. (SBU) A few Embassy contacts highlighted the Third Plenum as an important step coinciding with the 30th anniversary of China's economic reforms. In a recent meeting with EmbOffs, Beijing University's Li Yining claimed the Plenum marks a "new start" for reforms and is an "important turning point" in bringing the benefits of reform to rural residents. Li Ping, a Beijing-based rural land expert for the U.S.-based Rural Development Institute (RDI), said reforms called for in the Decision on land issues are "not dramatic" but are "still significant" because "unlocking" the latent wealth in rural land will increase Chinese consumption and help reduce dependence on investment and exports. Li Ping also said the Plenum sends a signal to local governments to stop violating land-use laws.

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¶14. (C) Zhang Xiantang (protect), senior reporter at the China Economic Times, the newspaper of the State Council Development Research Center, was more emphatic, telling EmbOff on October 20 that the Plenum Decision "sets the tone" for China's "next 30 years." Zhang passionately argued that, even though conditions in the countryside are better today than they were in 1978, peasants nevertheless have benefited least from China's economic "miracle." The PRC's reform and opening era began in the countryside 30 years ago with establishment of the household contract system for farmland, but since then "basically nothing" has been done for peasants. The countryside's "best labor, most of its capital and prettiest women" have all flowed to the cities over the past three decades, leaving behind "the elderly, a few women, the sick and the children" to farm the land, Zhang said. It is no wonder, therefore, that China's rural productivity remains so low, particularly in a global context. It is now high time that the success of the cities be reinvested in the countryside so that China's farmers can regain the ability to "help themselves," Zhang said, noting that the Plenum is a "step in the right direction" toward that goal.

Or "Nothing New"?

¶15. (SBU) Other Embassy contacts, however, were more skeptical of the Plenum Decision's impact. Renmin University Dean of Agricultural and Rural Development Wen Tiejun, for example, told EmbOffs that most of the reforms outlined in the Plenum Decision are "nothing new" and have been the subject of extensive debate and local experimentation over the last 30 years. Wen said the Plenum Decision reemphasizes various ongoing policy initiatives and innovations and sanctions certain measures that were not previously sanctioned by the Central Government, but does not provide details or a "significantly new" direction. Dang Guoying, a rural land expert at the Chinese Academy of

Social Sciences (CASS), commented that he was "not impressed" with the goal to double rural incomes by 2020 since urban incomes are increasing faster than rural incomes. He explained that peasant dissatisfaction is fueled by the gap in income levels, not income growth rates. Prior to the Plenum Party School economist Zhou Tingyong was skeptical that any significant reforms would result from the Plenum, noting that major rural sector policies were set in the 11th Five Year Plan and were working well.

The Bigger Picture: Breaking Down Barriers,
Rebalancing, Stability

¶ 16. (C) Although the Decision's discussion of land reforms has grabbed most of the headlines, the "bigger picture" behind the Plenum Document's proposals is the Government's attempt to break down the "urban-rural dual system" (chengxiang eryuan jiegou) that has created "artificial barriers" between the cities and countryside, according to the China Economic Times' Zhang Xiantang. For the past 30 years, Zhang explained, this "rigid" dual system has prevented the free flow of labor and capital between urban and rural areas, helping to create today's economic inequalities, the uneven distribution of social services and other public goods, as well as the problems caused by the current hukou system, under which it is nearly impossible for migrant laborers to register as urban residents. The larger goal, therefore, is to topple these barriers and strengthen peasants' rights as well as their access to public resources, Zhang argued.

¶ 17. (SBU) Although the Plenum Decision itself focused only on rural issues and did not address conditions in global financial markets and China's slowing economic growth, most Embassy contacts linked the two. (Note: The October 12 Plenum Communiqué did, however, address these economic issues, indicating they were clearly a topic of conversation at the Plenum (ref B). End

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Note.) Li Ping and Dang Guoying highlighted the need to decrease reliance on investment and exports and increase domestic consumption. Although rural finance and social safety net reforms are vital to increasing rural consumption, Dang and Li Ping told EmbOffs that broad, well implemented rural land reforms may make the largest contribution to boosting domestic consumption. They explain that clarifying and solidifying peasants' land-use rights and creating a market for the transparent and fair transfer of those rights reassures rural residents that they will maintain their rights and be properly compensated if they move to the city where they can work in higher paying service sector jobs. (Note: The income from renting or transferring secure agricultural land use rights to other land users who may be more productive land user will also maximize income flows to farmers and increase their consumption potential. End Note.)

¶ 18. (C) Most Embassy contacts also highlighted underlying concerns about social stability and rural unrest. Renmin University's Wen Tiejun told Emboff that the Government's large increase in fiscal expenditures (ref C) on rural issues is focused on addressing social conflicts. Dang emphasized that the privatization of land in a broad sense (e.g., solidifying and lengthening land use rights), even if it is not genuine privatization through ownership, is the key to resolving rural social conflicts and achieving a "harmonious society." Zhang Xiantang separately agreed, arguing that the powerlessness of

peasants and the state's inability to protect their land-use rights have been the major source of rural instability.

The Controversy Over Land Reform; Hu's Power

¶9. (C) The Decision's proposed reforms on land are the Plenum's most important outcome, and are "quite significant," if they can be implemented, the China Economic Times' Zhang Xiantang told EmbOff. The proposed land reforms are also "quite controversial," Zhang noted, speculating that opposition to the reforms voiced at the Plenum account for the one-week "lag" between the issuance of the Plenum Communiqué on October 12 (ref B), which barely even addressed the land issue, and the October 19 Decision.

¶10. (C) Zhang Xiantang related to EmbOff his understanding of the two main concerns on land reform voiced at the Plenum. Zhang said he had been given a readout by Han Jun (protect), who is Director of the Rural Economy Research Department at the State Council Development Research Center (the parent organization of Zhang's newspaper). Han, who was reportedly "intimately involved" in drafting the Plenum Decision, told Zhang that the first major concern expressed at the Plenum was that land reforms would raise costs, and thereby reduce income, for local governments, whose "main" source of revenue remains profits made from selling to developers the land-use rights expropriated from peasants. Closely related to this were concerns that land reform will enhance peasants' "negotiation rights," which not only will increase the costs of acquiring their land but also will make peasants "less obedient." The second major concern, according to Han, was a fear that the reforms will lead to unrest. For example, if rural migrant laborers currently residing in the cities "lose" their land-use rights, either through their "sale" or by "gambling" them away, and then subsequently lose their jobs due to an economic downturn, they will have "nothing left" to return to in the countryside. The fear is that these unemployed rural migrant laborers would then vent their anger on the Government, possibly causing them to "rebel" (zaofan), Han reportedly said.

¶11. (C) The inclusion of the land reforms in the Decision, despite the controversy over them, demonstrates that President Hu Jintao, who had hinted at the reforms prior to the Plenum, remains in charge of the Party's overall policy direction, and that the

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entire Politburo Standing Committee (PBSC) is "fully unified" behind the reforms, Zhang averred. Although the one-week delay in announcing the land reforms was almost certainly done out of recognition of the concerns voiced at the Plenum, Zhang said the Decision, and its inclusion of land reform, would only have been released if it had received the unanimous endorsement of the entire PBSC. Moreover, Zhang said he had been "pleasantly surprised" that Hu had been able to include land reform in the Plenum Decision "so early," arguing that these reforms have been "talked about" for "decades" but only now, under Hu, are they being codified. This "success" demonstrates that Hu's influence has grown now that he has entered his "second term" as Party General Secretary, Zhang asserted, even though he conceded that it will take a "long time" to figure out just how, and to what extent, the reforms will actually be implemented.

¶12. (C) Separately, Li Dun (protect), a legal rights

activist and former Tsinghua University professor, sounded a contrasting note, focusing less on Hu Jintao's power and more on his caution, arguing that the "small steps" on land reform contained in the Plenum Decision did not live up to expectations and reinforce President Hu's image as a "cautious leader" who does not like to take "big steps." Li Dun told EmbOff on October 21 that Hu Jintao really "does not care" about his image or seeking approval and therefore is "indifferent" to concerns that some in China might be disappointed at the "slow pace" of reform.

Land: Solidifying Use Rights, But No Breakthrough Yet

¶13. (SBU) On the specifics of land reform, the Third Plenum Decision stated that the household contracting system (chengbao zhidu) would be long-term (changjiu) and would not change (bubian). Rural land will remain collectively owned. According to RDI's Li Ping and other Embassy contacts, the concept of long-term, unchanging land use rights under collective ownership is already established by various laws and leadership statements beginning in 1984. But in press interviews (ref D), Chen Xiwen, Director of the Central Leading Group for Rural Work, said further legal revisions will be forthcoming to implement the Third Plenum Decision's message that that farmers' contracts over land are, in fact, stable and long-term (e.g., possibly by extending land-use contract periods beyond the current 30-year period, or by providing a stronger legal framework for automatically renewing the 30-year contracts).

¶14. (SBU) According to Li Yining the Decision's emphasis on long-term, unchanging land use rights reassures peasants that their land will not be confiscated by the government. CASS rural land expert Dang, in a meeting with EmbOffs, argued that the Decision outlines de facto privatization (benzhi siyouhua) and is essentially the same as "permanent" (yongjiu) land-use rights, because it reinforces peasants' ability to renew their land-use contracts automatically and without paying any fees. Zhang Xiantang separately made a similar argument, stating that the land reforms in the Decision move China to the "mid-way point" on the path toward complete privatization, which he added, should be China's "ultimate goal."

¶15. (SBU) The Decision also emphasizes the right to transfer land-use rights through renting them out, or investing the rights in a joint stock company. Dang, Li Ping and others argue that this right already exists in law, but they emphasize that the creation of a workable market for land-use rights will also require new regulations and institutions (e.g., a land registration and certification system) that are not currently in place nationwide.

¶16. (SBU) Finally, the Decision document stresses the need to make the system for expropriating rural household and non-agricultural land (jianshedi) for

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commercial development (e.g., for town and village enterprises or foreign-invested factories) more transparent, fairly compensated, and limited to projects genuinely contributing to the public good. According to Li Ping, the legal framework for handling land expropriation is engrained in current Chinese law as well, but the Plenum document highlighted the issue to put pressure on local officials to comply with current law and protect rural residents' interests.

Wen Tiejun also said that although the Plenum Decision provides "no breakthrough" on the land issue, the Decisions' statement reconfirming peasants' right to fair treatment in the land expropriation process is "important."

¶117. (SBU) While our contacts welcomed the Decision's statements on land-use issues and land transfers specifically, Dang also pointed out that potential downsides may include a short-term decrease in grain production as new land users may initially produce less than experienced small farmers or focus on more profitable crops than grain. Land prices may also rise and local governments will have more difficulty obtaining land that in the past was often offered at little or no cost to outside and foreign investors.

Rural Finance: An Outline for Further Reforms

¶118. (SBU) The Plenum Decision also highlights a range of rural finance issues that need to be addressed: increasing credit and other funding available to rural areas, maintaining the Agricultural Bank of China's rural services (weinong fuwu), increasing policy-lending (preferential loans for poor and other targeted borrowers) from the China Agricultural Development Bank, increasing the Postal Savings Bank's rural services, increasing small-scale and micro-lending to rural areas and expanding rural insurance services. The document calls for financial institutions to use deposits from rural customers to make loans in rural areas where the funds can contribute to rural development. (Note: This is aimed at reducing the long-standing outflow of capital from rural to urban areas. End Note.) The Decision also allows small-scale financial entities (nongcun xiaoxing jinrong zuzhi) to obtain capital from larger financial institutions and rural specialized cooperatives to develop cooperative credit services.

¶119. (U) On October 17, The People's Bank of China (PBOC) and the China Banking Regulatory Commission (CBRC) released a document "in the spirit of the Third Plenum" designating key grain producing areas in the three Northeast China Provinces and six Central Provinces as "trial sites" for reforming rural finance. In these provinces, financial institutions will expand various forms of small credit loans and increase the quality and availability of financial services.

¶120. (SBU) Consistent with the Plenum Decision, the rural finance trials will also allow the use of assets such as crop orders, agricultural production equipment, forest rights (linquan) and coastal land as collateral in financial transactions. The PBOC/CBRC report and Plenum Decision do not, however, mention the use of rural agricultural or household land for collateral, which many see as a prerequisite for commercially viable rural banking (ref C). Nonetheless, Embassy contacts are divided as to whether the Decision implicitly sanctions these transactions as well. (Note: Shandong Province is experimenting with the use of agricultural land as collateral and Anhui is experimenting with the use of rural residential land as collateral. End Note.) According to Li Ping, language in the Decision giving peasants more complete and secure contracting rights may leave room for expanding these rights to include the right to mortgage land, since this right is traditionally included in the full range of property rights. Dang, a strong advocate of privatization, thinks the right to mortgage land can be achieved through legal changes, but Wen argues that using rural

land as collateral is "off limits" politically because peasants may lose their land if they go bankrupt.

¶21. (SBU) RDI's Li Ping also points out that the use of "forest rights" (linquan) in the Decision rather than "forest land rights" (lindiquan) reflects the measured nature of the reforms. A regulation issued in June allowing the mortgaging of "forest rights" actually only applies to the trees grown on forest land and not the land itself. Because of this, experiments to mortgage "forest rights" in Jiangxi and Fujian still face legal difficulties, according to Li.

Next Steps: More Meetings, and More Debate

¶22. (SBU) The Third Plenum Decision did not include details on specific policy changes, and our contacts were unable to point to any definite legislative or regulatory changes scheduled for the immediate future. According to Beijing University's Li Yining, various levels of government will now study the document and explore ways to implement it. Dang and Wen said progress on the needed reforms highlighted in the Decision will take a "long time."

¶23. (SBU) On the land issue, CASS's Dang Guoying commented that land reallocation and registration of use rights are needed to implement the reforms, and that this is a "difficult, slow process." Zhang Xiantang agreed that the details of these reforms, particularly on the transfer of land-use rights, still need to be "worked out." He predicted that we may begin to see some of the details emerge at the March 2009 National People's Congress but cautioned that this will be a "long-term" process. Zhang also speculated that many of the details on implementation could eventually be "left up to local leaders." Chen Xiwen told the press that "new legislation" is needed to implement the Third Plenum Decision on extending and renewing land use rights, but he did not specify a timeline (ref E).

¶24. (SBU) Li Ping points out that existing flaws in property laws covering expropriations have been supplemented by the State Council regulations, and that an "easy first step" would be to incorporate these regulations into law. Li Ping and Wen also argue that many of the property laws (e.g., the 2002 Rural Land Contracting Law and the 2007 Property Rights Law) are already very good on paper and that better implementation and broader institutional and governance reforms are needed if real progress is to be made. But solving these problems is extremely difficult and will take years to accomplish, according to Wen.

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